



Directorate of
Intelligence

~~SECRET~~



25X1

Latin American and Caribbean Drug Producers: The Impact of Depressed Economies

25X1

An Intelligence Assessment

~~SECRET~~

GI 85-10033
February 1985

Copy 212

Page Denied



**Directorate of
Intelligence**

Secret

25X1

Latin American and Caribbean Drug Producers: The Impact of Depressed Economies

25X1

An Intelligence Assessment

This paper was prepared by [redacted]
Office of Global Issues. Comments and queries are
welcome and may be directed to the Chief,
Economics Division, OGI, [redacted]

25X1

25X1

Secret
GI 85-10033
February 1985

Secret

Latin American and Caribbean Drug Producers: The Impact of Depressed Economies

25X1

Key Judgments

*Information available
as of 10 January 1985
was used in this report.*

We believe depressed economic conditions, among other key factors, have contributed to the recent expansion of the drug industry in a number of the source countries of Latin America and the Caribbean (Mexico, Colombia, Peru, Bolivia, Belize, Costa Rica, and Jamaica). First, recessions in official economies have meant a step-up in the relative economic rewards for participating in the drug sector, encouraging increased production of drugs. For example, higher unemployment has provided more and cheaper labor to traffickers, farmers, and other organizers of narcotics activities. Similarly, some businessmen and investors, faced with bleak opportunities in official economies, have moved into narcotics activity. Furthermore, adverse price trends for some of the major agricultural commodities of these countries have encouraged farmers to substitute drug crops.

Second, the slack regular economies also have sapped enforcement efforts of these countries. Governments probably have become more resistant to taking enforcement actions—such as crop eradication and involuntary crop substitution programs—that would reduce employment and income at a time of already depressed conditions. In addition, some leaderships have become preoccupied with economic problems, so that controlling narcotics receives less attention. At the same time, government budget cuts have limited funding—despite US aid—of such key elements of enforcement as police personnel, courts, and prisons. Finally, reductions in real incomes, a result of austerity measures and inflation, made government workers in these countries more susceptible to narcotics-related corruption.

The poor economic outlook for the major source countries in Latin America and the Caribbean—especially in the absence of improved terms of trade or significant economic policy changes—promises to delay bringing the drug industry under control and may also contribute to further expansion. In addition, similar economic conditions in other regional countries, such as Brazil, Argentina, and Venezuela, will make them more vulnerable to the growing narcotics activity.

25X1

Secret

25X1

Table 1
Latin American and Caribbean Drug Producers:
Estimated Increase in Cultivation, 1983^a

Percent

	Drug Crop	International Narcotics Control Strategy Report ^b	US Embassy, January 1984	Narcotics Intelligence Estimate, 1983 ^c
Belize	Cannabis	180 ^d	400 ^d	NA
Bolivia	Coca leaf	0	10	NA ^e
Colombia	Coca leaf	30-220	20-180 ^f	Cultivation increased
	Cannabis	70	80 ^f	g
Costa Rica	Cannabis	20	20	NA
Jamaica	Cannabis	0	0	NA
Mexico	Opium	NA	30	25
	Cannabis	0.90 ^h	100 ⁱ	g
Peru	Coca leaf	0	30	NA ^e

^a Unless otherwise indicated, the percentages in this table are based on changes in hecたrage used for growing drug crops. Because of major uncertainties in data bases and estimating methods, the figures are subject to large errors and should be considered as only indicative. In particular, the estimates in the range of 10 to 20 percent are probably well within the error of estimation. Thus, it is not certain that cultivation actually increased in these cases.

^b "International Narcotics Control Strategy Report," in *US Response to Cuban Government Involvement in Narcotics Trafficking and Review of Worldwide Illicit Narcotics Situation*, US Government Printing Office, Washington, D.C., 1984, pp. 79-233.

^c *Narcotics Intelligence Estimate, 1983*, The National Narcotics Intelligence Consumers Committee, Washington, D.C.

^d Based on estimated cultivation data in metric tons.

^e [redacted] any estimate would be highly speculative.

^f Based largely on DEA estimates.

^g [redacted] production increased, in part because of more rainfall.

^h Based on estimated exports.

ⁱ Based on seizures of marijuana at the US border.

25X1

25X1

25X1

Secret

Latin American and Caribbean Drug Producers: The Impact of Depressed Economies

25X1

Introduction

Cultivation of drug crops expanded during 1983 in most of the Latin American and Caribbean source countries and sometimes increased substantially as in the case of Belize (table 1).

and the Caribbean. We do not mean to suggest that the economic problems of these regions provide the major explanation for the probable expansion of the drug industry, but we do suspect that the impact of economic recessions has been more than a negligible factor in the following Latin American and Caribbean countries—Mexico, Colombia, Peru, Bolivia, Belize, Costa Rica, and Jamaica.

25X1

Administration (DEA) [redacted] indicate considerable expansion of Mexican marijuana production in the past year or so.

A number of factors have contributed to this growth of the drug industry in the Latin American and Caribbean regions, including:

- Increased corruption.
- Adoption of new strategies by major traffickers (for example, Colombian narcotics organizations have encouraged coca production within Colombia as supplies from Peru and Bolivia declined because of increased processing and trafficking capabilities in the latter countries).
- Changes in the political environment that loosened controls on narcotics activities.
- Increased demand.
- Entry of new traffickers and producers.
- Depressed economies.

The importance of these factors varies across countries, depending on geography, local customs, economic structure, and political situation.

This paper focuses on the role that depressed economies have had on the drug industry in Latin America

Depressed Economies Encourage Resource Shifts

25X1

Slack economies, reflected both in higher unemployment and lower profits in traditional agriculture, almost certainly have encouraged some expansion of the drug industry.

25X1

Increased Unemployment

25X1

With the sharp slowdowns in economic growth, official unemployment has risen substantially in most of the Latin American and Caribbean drug-producing countries (table 2). Greater unemployment in the official economies tends to provide more and cheaper labor to major traffickers, as well as to farmers and other organizers of narcotics activities at lower levels in the production chain. We also would expect that migration increased to centers of drug activity, many of which are flourishing economically. For example, in Mexico the opium production- and trafficking-based economy in and around Culiacan is thriving and almost certainly has attracted financially strapped migrants from elsewhere in the country. At a minimum, greater unemployment will make it harder to get current drug sector workers to quit in favor of other work.

25X1

Businessmen also increasingly might shift their resources and entrepreneurial skills to the drug industry. Activity in this area probably takes many different forms, reflecting various motives. For example,

25X1

Table 2
Latin American and Caribbean Drug Producers:
Economic and Narcotic Situations

	Economic Situation	Price Trends of Agricultural Goods	Narcotic Situation	
Belize	<p>Declines in export prices since 1980 have led to a 30-percent decline in national income. In the 1980 census, unemployment was estimated at 14 percent of the labor force. Although later employment data are not available, it is believed that unemployment has increased since then with the slowdown in the economy. [redacted]</p> <p>[redacted] growth of GDP was 2 percent in 1983 and growth was not expected to be much higher in 1984.</p>	<p>Sugar represents about 60 percent of exports. Given decreasing export quotas in the US preferential market and a much lower free market price, the unit price of sugar exports has fallen one-third since 1980.</p>	<p>According to Embassy reporting, marijuana has recently become a major cash crop. Cultivation is estimated to have increased by three to five times in 1983, in part due to weak markets for traditional crops. According to recent Embassy estimates, production did not increase in 1984, but growers showed increasing sophistication in the use of irrigation, fertilizer, and intercropping.</p>	25X1
Bolivia	<p>The Bolivian economy has been battered by a \$4 billion foreign debt, high interest rates, depressed export prices, adverse weather, and political instability. Domestic production has fallen by about 30 percent since 1980. [redacted]</p> <p>[redacted] the rate of unemployment in 1983 was 9 percent compared to 6.6 percent a year earlier; the labor force defined as underemployed almost doubled in 1983 to 46 percent, compared to 28 percent in 1982.</p>	<p>Although volumes are small, the unit prices of both sugar and coffee exports have fallen by about one-half since 1980. Furthermore, Bolivia's policy of providing food subsidies has kept food prices low for producers as well as urban consumers.</p>	<p>[redacted] coca leaves—the raw material for cocaine—is the only cash crop showing substantial growth. According to estimates from the US Embassy in La Paz, production, which is legal in Bolivia, increased by about 20 percent since 1981. [redacted] high profits are crowding out other crops that face lower prices, whether because of weak demand or price regulations.</p>	25X1
Colombia	<p>While escaping negative growth rates, Colombia's economic performance has fallen off sharply in the last few years contrasted with the 1970s. Growth of GDP probably averaged 1 percent per year in 1982-83. Measured unemployment increased from 8.2 percent in 1981 to 10.1 percent in 1982 and then to 12.5 percent in 1983, as reported by the US Embassy Bogota. Unemployment reached a record 14 percent in June 1984. Large current account deficits and cutbacks in new lending from abroad recently caused the government to place severe restrictions on imports.</p>	<p>Coffee accounts for about 60 percent of Colombia's exports. The unit price of coffee exports was about 25 percent less in 1981-83 than in 1978-80. According to the US Foreign Agriculture Service, coffee production fell in 1983 and was expected to drop again in 1984 as producers face a profit squeeze. Higher production costs have not been matched by higher, government-administered coffee prices, despite a recent boost in the world price.</p>	<p>We estimate marijuana production increased sharply in 1983, contrasted with the previous year when drought held production down, and was somewhat higher than production in 1979-81. Our estimates indicate coca cultivation has tripled in recent years—from approximately 5,000 hectares in 1980 to some 16,000 hectares in 1984. As a result of the government crackdown in 1984, some minor trafficking organizations have been shut down. Major traffickers have largely adjusted by relocating operations in neighboring countries and by diversifying shipping routes and smuggling techniques.</p>	25X1

Secret

Table 2 (continued)

	Economic Situation	Price Trends of Agricultural Goods	Narcotic Situation
Costa Rica	<p>Starting in 1980 the Costa Rican economy entered a severe recession as the result of high interest rates and cutbacks of foreign lending and also delays in taking needed financial policy adjustments. The measured unemployment rate rose from 5 percent to 9 percent, and real wages fell by about a third. The economic decline leveled off in 1983 when GDP grew at an estimated 0.8 percent.</p>	<p>Coffee, bananas, sugar, and beef make up about 60 percent of total exports. The unit value of coffee exports fell by a third from 1980 to 1983; sugar fell by almost one-half from 1980 to 1982 but recovered substantially in 1983 because of increased sales to preferential markets. The unit value of meat exports decreased 20 percent from 1980 to 1982, regaining about 5 percent in 1983. Only bananas have registered price growth since 1980, rising about 9 percent by 1983.</p>	<p>Embassy reporting indicates that acreage under marijuana cultivation has roughly doubled in size since 1981 to about 950 hectares in 1984. (A successful enforcement effort in 1984, however, resulted in the eradication of 245 hectares.) Expansion has occurred primarily in the sparsely populated rural provinces, where small-scale farmers have shifted to marijuana production as a more profitable cash crop than traditional crops. The Embassy also suggests that the depressed legal economy has attracted others to the big money available from drug trafficking.</p>
Jamaica	<p>For much of the 1970s, the Jamaican economy suffered recession and high unemployment. The economy recovered somewhat in 1981 but since then has been hit by weak world demand for aluminum, prolonged drought, and reduced sugar prices.</p> <p>GDP growth has averaged about one-half percent per year in 1982-84. According to an Embassy report, Jamaica's unemployment rate was 27 percent as of late 1983.</p> <p>To meet import and debt servicing costs, Kingston borrowed heavily, and the external debt reached \$2.2 billion by yearend 1983. Foreign credit dried up when Jamaica fell out of compliance with IMF targets in late 1983. Recently, Jamaica has launched a new austerity program to correct imbalances and to qualify for IMF loans.</p>	<p>Jamaica has access to protected markets in the United States and the United Kingdom for its sugar exports; it also has a large quota in the United Kingdom for its banana exports. Nevertheless, the unit price for sugar exports declined 15 percent from 1980 to 1982. In 1983 this price recovered by 10 percent. The unit price of bananas fell 30 percent in 1981-82; it rebounded by about 25 percent in 1983.</p>	<p>Although documented evidence is sparse, Embassy reporting states that both Jamaican and US enforcement officials believe marijuana cultivation is increasing, in part because of depressed economic conditions.</p> <p>25X1</p> <p>25X1</p>

Secret

Table 2
Latin American and Caribbean Drug Producers:
Economic and Narcotic Situations (continued)

	Economic Situation	Price Trends of Agricultural Goods	Narcotic Situation
Mexico	<p>Rapid economic growth in 1978-81 based on petroleum and foreign borrowing came to an end in 1982, when increased inflation, an overvalued peso, and large debt service costs resulted in a halt of foreign lending and capital flight. The recession continued in 1983 when GDP contracted by 5.3 percent. The economy picked up somewhat in 1984 with GDP growth of 2 to 3 percent.</p> <p>Nevertheless, we believe the rate of unemployment has more than doubled since mid-1982 and now stands at more than 20 percent; it is close to 30 percent in urban areas.</p>	<p>Major agricultural exports are cotton and coffee. The unit price of cotton exports fell about 20 percent in 1981-82 while the unit price of coffee exports fell about 10 percent. Furthermore, rapid and volatile inflation, combined with government controls on producer prices of agricultural goods, probably has diminished production incentives.</p>	<p>There are several indications of greater narcotics activity in Mexico. Our preliminary estimates of the opium crop for 1984 suggest that the harvest could exceed 30 tons, almost double 1983 production. According to a press report, Mexican newspapers now frequently report raids on drug labs, while seizures of refined heroin have increased 10 times in the last few years.</p> <p>On the basis of data on seizures, DEA in the US Mission in Mexico estimated that marijuana production roughly doubled in 1983. More recently during operations in the State of Chihuahua in November 1984, a large marijuana seizure of an estimated 1,500 to 2,000 tons took place. The size of this seizure implies that Mexico produced much more than previously estimated.</p>
Peru	<p>Substantial foreign borrowing and high commodity prices allowed average economic growth of about 3 percent during 1979-80. Since then, however, weak export prices, increased debt service costs, and disastrous weather in 1983 have resulted in at least a 10-percent fall in per capita income. Unemployment and underemployment combined rose possibly as high as 60 percent in 1983.</p>	<p>According to the US Foreign Agriculture Service, production of some foodstuffs for local consumption is falling as the result of reduced purchasing power among consumers. In addition, although prices to farmers are generally uncontrolled, the government procures substantial food imports which has the effect of holding down prices to farmers.</p>	<p>The US Embassy has reported that both opium and marijuana cultivation are spreading to nontraditional locations. This probably reflects efforts to avoid detection as well as increased incentive to obtain cash through drug production, given the slump in the Mexican economy.</p> <p>Cultivation of coca leaf is a major cash crop in Peru. Although there is little information available on production trends, the expansion of cultivation to nontraditional areas indicates the opportunity to obtain higher incomes than from alternative crops. As pointed out by the Embassy, the fact that reported prices for coca paste fell during 1983 suggests that supply is growing. While some of the price reduction is explained by production growth in Bolivia and Colombia, greater production in Peru probably also has contributed.</p>

Secret

some businessmen desperate for foreign exchange might agree to provide a front for partners in the drug trade in exchange for hard currency. Bankrupt or near-bankrupt individuals might attempt to take a direct hand in production or trafficking of narcotics. Private investment resources could increasingly be channeled to narcotics activity, which may offer not only increased returns compared with the official economy but also hard currency and low risks. []

Some examples of this activity have been noted []

- [] in Bolivia many formerly legitimate businessmen have gone into narcotics trafficking while continuing to run their businesses.

[]

- [] in Jamaica [] a trend toward large, commercial-level marijuana-growing operations in which farmers receive financing either from private investors or major traffickers. The private investors are often small groups of local Jamaicans or sometimes foreigners. []

Information gaps prevent us from making even crude estimates of how large an impact increased unemployment, or increased bankruptcies, in official economies has had on the drug industry. Nevertheless, on the basis of the evidence presented in table 2, we suspect the impact has been at least moderate in most of these countries. []

Lower Agricultural Profits

World market prices for many agricultural commodities have declined over the last few years. []

[] current world prices of food and agricultural raw materials are, on average, still 10 to 20 percent below the peak year of 1980, despite some recovery during the last year. Prices for sugar, coffee, and cotton—major

agricultural exports of the study countries—are down substantially. The price of sugar now stands at about 15 percent of the 1980 price, while the price of cotton is down about 25 percent and the price of coffee is about 10 percent lower (see figure). []

25X1

While there is a large diversity in the level of sophistication of farmers in many LDCs, they all frequently show a strong sensitivity to price shifts and react quickly to make crop substitutions that imply higher incomes. The prices received by farmers for nondrug crops as well as the prices they pay for production inputs, such as labor and fertilizer, for these crops thus are important factors affecting the incentive to produce drug crops. []

25X1

25X1

25X1

25X1

25X1

We suspect recent price trends for agricultural commodities and inputs have tended to increase the relative profits from growing drug crops in some of the countries we examined. The evidence we have usually is only circumstantial, composed of adverse price trends for nondrug crops accompanied by indications of greater cultivation of drug crops. Thus, in general, we cannot discount an important role for traffickers, who may be driving the increases in production.¹ Nevertheless, higher relative incomes appear to be a key influence in a number of cases, particularly those involving marijuana, because traffickers often have a smaller role in this crop than in coca leaf and opium:

25X1

- According to the US Embassy, marijuana has become a major cash crop in Belize, in large part because of the decline in earnings available from sugarcane and, to a lesser extent, other legal crops such as corn and beans.

25X1

25X1

- The Embassy in Costa Rica attributes much of the spread of marijuana production there to the severe economic recession and the worsened financial situation of small farmers. The Embassy suggests that improved economic conditions in the countryside will be needed to undercut the economic rationale for marijuana growing.

25X1

¹ Another possibility is that expanded cultivation of drug crops in some cases reflects an ongoing adjustment to traditionally higher drug crop prices that existed even before the recent decline in agricultural commodity markets. []

25X1

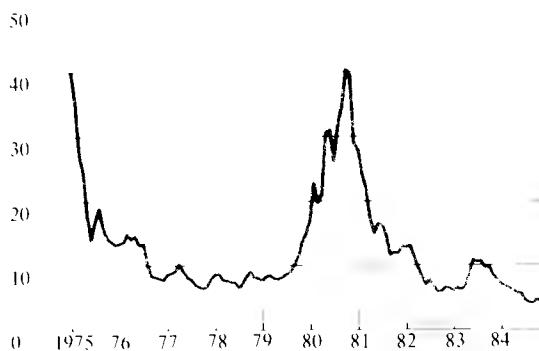
25X1

25X1

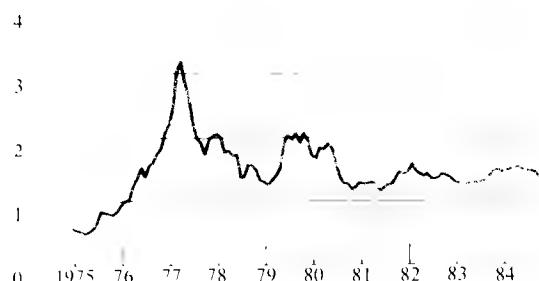
Secret

**Selected Agricultural Commodities:
World Price Trends, 1975-84^a**

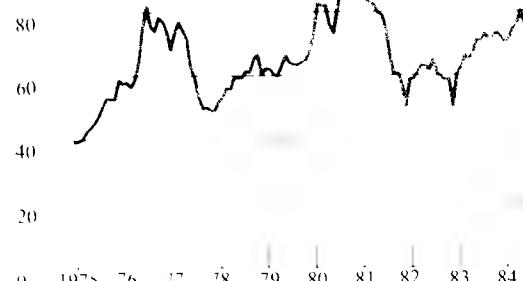
Cents per pound
Sugar



Dollars per pound
Coffee



Cents per pound
Cotton



• Monthly averages

- In a recent tour of small towns in the Jamaican countryside, [redacted] frequent mention by townspeople that marijuana growing was replacing sugar, bauxite, and, in one case, indigo dye as a source of income and jobs.

25X1

- Recent Embassy reporting from Bolivia indicates that in the regions of greatest coca production, the Chapare and Yungas, not only is coca the principal cash crop but also, increasingly, farmers are turning to coca monoculture. Farmers still growing food and other crops face not only relatively weak prices but also increased labor costs because they have to compete for workers employed in coca-leaf growing and processing who are paid relatively well.

[redacted]

25X1

Government exchange rate and price policies also may have played a role in raising the relative returns of drug activity. Because most of the legal commodities are priced in US dollars, the appreciation of the dollar should increase the domestic prices received by farmers in these countries. Some of the countries, however, have attempted to maintain overvalued exchange rates, a step that prevents the potential price gains from reaching the farmer. In addition, some of these governments control farm-gate prices to keep down food prices in urban areas. This practice further lowers the profits from legal farming relative to those of drug production, encouraging the latter activity. [redacted]

25X1

One of the source countries also has had to face smaller preferential markets for its exports in recent years and, hence, lower average prices. Starting in 1982 Belize has had to shift more sugar exports into the free market at prevailing low prices because of smaller quotas in the US market. As a result, the average price of sugar exports from Belize was some 25 percent lower in 1983 than it would have been.

[redacted]

25X1

Economic Recessions Weaken Enforcement

We believe that economic recessions have tended to diminish the willingness of most of the major drug-

304638 (C00881) 1 85

25X1

Secret

The Role of Relative Profits

While a variety of forces probably influence farmers to produce drug crops, many analysts agree that higher earnings often is a major motivation. However, it can be argued that market conditions and profits in nondrug crops are not relevant to farmers' decision-making because of the large role of major traffickers. According to this view, traffickers are easily able to set prices at whatever levels are needed to ensure that growers supply the desired production. Thus, market conditions elsewhere in agriculture do not really affect the drug industry.

Without denying that often the role of traffickers is dominant, we believe that in other cases relative profits also will be an important influence. Its role becomes clearer if we distinguish between "old" growers of drug crops and "marginal" ones. Old growers can be considered those who are relatively established. They have learned the cultivation methods, have developed long-term arrangements with traffickers, and generally have little interest in other agricultural pursuits. Consequently, the earnings possible from cultivating other crops may have little bearing on their production decisions.

Marginal growers can be considered those who are new to cultivation of drug crops or are currently growing alternative products but are thinking of raising drug crops. Marginal growers thus are much more likely to compare alternative earnings possibilities than established growers. Although a declining market for nondrug crops might have little impact on old growers, it may importantly influence the marginal group. How individuals in this group react will probably vary widely. Some might approach known traffickers and arrange to sell a future drug crop; others might offer to work with established growers. Often these actions could include migration to locations where drug crops are produced.

25X1

25X1

The future growth of drug production to a large extent depends on the actions of marginal growers rather than the established ones. As in the past, the actions of the marginal group probably will depend to a large degree on the production strategy of traffickers and whether this strategy includes organizing new growers. At the same time, we would expect market conditions in the rest of agriculture also to influence marginal growers and growth of the drug industry.

25X1

25X1

producing countries in Latin America and the Caribbean to undertake stringent enforcement efforts. First, depressed economic conditions have highlighted the role of the drug industry as an economic safety valve. With reduced employment opportunities in the rest of the economy, governments probably are reluctant to undercut the livelihoods of even more workers by carrying out drug-control policies, such as crop eradication, crop substitution, and crackdowns on traffickers. Furthermore, such cutbacks in direct employment in the drug sector would have ripple effects because legal businesses that provide goods and services to drug-sector workers would suffer reduced sales.

the external payments account.

25X1

The United States provides substantial aid to these countries to support operations against narcotics activity. Nevertheless, economic recession often has led to cutbacks in government budgets that have reduced spending on such other key elements of enforcement as police personnel, courts, and prisons. Finally, efforts to improve the economic situation have in some

25X1

25X1

Besides concern for the employment impact of crackdowns, governments are also aware that the drug trade provides large inflows of hard currency. Any reduction of these flows would imply further depreciation of domestic currencies and greater pressures on

Secret

cases served to relegate the narcotics problem to a lower priority, both in terms of government resources and leadership focus. There are a number of indications that the enforcement efforts of these countries have been affected in one way or another by their economic situations. [redacted]

Latin American Countries

Although *Mexico* recently has intensified its eradication efforts, we believe the government would be reluctant to undertake the sweeping changes in programs and personnel needed to achieve major progress in drug control. [redacted] the Mexican Government continues to be preoccupied with reviving the economy. In *Colombia*, prior to the May 1984 crackdown, President Betancur showed little interest in formulating a coordinated drug policy, being preoccupied instead with Colombia's troubled economy, Third World politics, and the persistent indigenous terrorist and insurgent threat. Since then, the government has demonstrated somewhat greater determination, most notably by recently extraditing four accused traffickers to the United States. [redacted]

Although Embassy reports do not suggest that *Peru's* economic problems have affected its commitment to control the coca industry, the recession has led to government spending cutbacks. The United States largely finances the costs of coca eradication operations, but funding of other aspects of enforcement, such as courts and prisons, have suffered, according to an Embassy report. Until recently, the Siles government in *Bolivia* made little effort on the narcotics front because it was preoccupied with economic and political problems. The possibility of a suspension in US aid, in part, prompted a sweep by the military through the Chapare region in August 1984, but only a few arrests were made as most of the some 2,000 traffickers were able to flee. [redacted]

Caribbean Countries

The depressed sugar industry in *Belize* and *Jamaica* has promoted the numbers and political strength of marijuana farmers. According to State Department analysis, former Prime Minister Price of *Belize* suspended the country's successful spray eradication program in February 1984 in order not to jeopardize his party's political base in the marijuana-growing regions. A recent report from the US Embassy in

Kingston indicates that high-level officials in the *Jamaican* Government frequently emphasize the political risks of a strong stand against marijuana cultivation. They say the danger is that strong actions would turn the many small farmers dependent on marijuana against the present government [redacted]

25X1

25X1

Corruption

Economic recessions and government austerity may also be weakening enforcement indirectly through increased susceptibility to corruption. The enormous earnings generated in the drug industry provide traffickers and others the capability to make large bribes, which will continue to be the main force behind corruption in the major Latin American and Caribbean source countries. At the same time, cutbacks in government spending as well as inflation have tended to reduce the real value of the salaries of government employees, increasing their susceptibility to bribery and other forms of corruption. In extreme cases, some high officials and lower level employees may even have been prompted to become directly involved in narcotics activities. [redacted]

25X1

Although it is difficult to obtain data on corruption, there is some fragmentary evidence that points to economic problems contributing to its spread. [redacted]

25X1

[redacted] A recent Embassy report from *Belize* indicates that low salaries and few opportunities for economic advancement make police and other government personnel charged with narcotics enforcement vulnerable to corruption. In another example, [redacted]

desperation for funds has caused the Surinamese Government to become involved in transporting cocaine from Colombia, Peru, and Bolivia to the Netherlands. Finally, a recent report from the US Embassy in *Paraguay* suggests that high-ranking military leaders may have become more involved in drug trafficking because of the phasedown of the immense *Itaipu*

25X1

25X1

Secret

Secret

Table 3
Latin American and Caribbean
Drug Producers: Projections of
GDP Growth, 1985

Percent

	DRI ^a	WEFA ^b	Chase ^c
Bolivia	NA	NA	1.7
Colombia	1.1	2.5	3.1
Costa Rica	NA	NA	-2.7
Mexico	3.3	4.6	4.7
Peru	2.6	NA	2.6

hydroelectric project, which during its construction provided ample chances for high-level officials to enrich themselves. [redacted]

drug industry under control. Little or no growth in opportunities and income in these economies certainly will discourage drug industry participants from shifting into other activities and, indeed, probably will result in further shifts in the other direction. Enforcement efforts will continue to be constrained by funding problems, preoccupation with the economic situation, and, perhaps most important, by leadership concerns for the political and economic fallout of such steps as crop eradication, crop substitution, and crackdowns on traffickers. [redacted]

25X1

Elsewhere in Latin America, other countries with economic problems also could have trouble suppressing increasing narcotics activity. Largely because of their proximity to source countries, Brazil, Argentina, and Venezuela have experienced increased production and trafficking of cocaine. All three countries are also large debtors, have had slower economic growth in the last few years compared to the 1970s, and face tighter government budgets [redacted]

25X1

25X1

25X1

Outlook: Continued Economic Pressures

The economic situation of the major drug-producing countries in Latin America and the Caribbean probably will not improve much in the near term. First, some world economic conditions remain adverse, particularly for the countries with large debts—Mexico, Peru, and Colombia. Interest rates remain high, and foreign loans often are not available. Even assuming that the current debts can be continually rescheduled, the interest payment obligations alone are huge and will continue to constrain imports. Many commodity prices are flat and show little indication of increasing even though the industrialized countries are in an economic upswing. Furthermore, in some of these countries economic recovery is held back by burdensome government regulations and policies. Given the outlook for world economic conditions and the continued reluctance of governments to adopt more market-oriented policies, forecasters anticipate continued relatively weak economic growth in 1985 for most of these countries (table 3). [redacted]

25X1

We believe the poor economic outlook for most of the major Latin American and Caribbean drug-producing countries will continue to impede efforts to bring the

Secret

Secret